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RUEHKO/AMEMBASSY TOKYO 0576
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SIPDIS

DEPT FOR EAP/MTS AND EB/ESC/IEC
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SUBJECT: Sumbawa Mine Showcases World Best Practices

¶1. Summary: (SBU) The PT Newmont Nusa Tenggara (PTNNT) copper and gold open pit mine at Batu Hijau on the island of Sumbawa is a showcase for state of the art mining technology, environmental best practices, and responsible community development policies. During a June 22 to 24 site visit, the Charge d'Affaires (CDA) had the opportunity to see a successful business venture that supports local community employment and provides enormous wealth to the Government of Indonesia. The mine receives much less attention than Newmont's other venture in North Sulawesi, but both underscore the firm's commitment to technological and environmental global best practices. End summary.

Mine Operations

¶2. (SBU) Located on the island of Sumbawa in the south central portion of the Indonesian archipelago, Batu Hijau is 950 miles east of Jakarta. PTNNT is a joint venture with Sumitomo Corporation and local firm PT Pukuafu Indah. Denver-based Newmont is the operator with an ownership interest of 45%. Construction cost \$1.8 billion. Newmont signed its initial fourth-generation Contract of Work in 1986 and commenced exploration activities that same year. They discovered the Batu Hijau copper-gold deposit in 1990. The GOI approved the required environmental impact study in 1996 and the firm began commercial production in 2000. Under current scenarios, Director of Operations Leigh Taylor said they will be processing ore until 2034, though mining will cease many years before that date.

¶3. (SBU) The project covers an area of 87,540 hectares, according business planning superintendent Dave Sellers, but only 2,000 to 3,000 hectares of forest will be disturbed for mining. The mine site itself is 1,476 feet above sea level and nine miles in-land from the company's purpose built port in Benete Bay. The pit plunges 3,445 feet into the ground and measures 1.6 miles in diameter. Electric shovels work 24 hours per day, seven days per week putting the ore into 240-ton haul trucks, which convey the ore to be crushed and then onward four miles to the concentrator which makes use of two grinding mills and five flotation lines. The flotation lines use physical processes only, not chemicals, to separate the copper and gold from the rock slurry. The end product concentrate is then pumped through pipelines to the port at Benete, where it is filtered and then shipped to smelters in Asia and Europe. On average they mine 784,000 tons of rock per day. With a strip ratio of 2 to 1, each day the mine yields 392,000 tons of commercial-grade ore. Since the mine opened PTNNT has mined a total of 3.8 billion tons of rock. In 2006 they mined 294 million tons of rock at a cost of \$319 million. In 2006, PTNNT milled 46 million tons of concentrate at a cost of \$144 million. On typical day, they

mill 156,200 tons of ore to obtain 2,300 tons of concentrate, according to operations superintendent Rachmat Makkasau.

Economic and Community Development

14. (SBU) PTNNT has approximately 4,320 employees and 2200 contractors, almost 98% of whom are Indonesian and more than 60% of whom are from West Nusa Tenggara province and local communities. Batu Hijau's performance in environmental management, safety management and community development is among the best in Indonesia, according to external relations manager Kasan Mulyono. He said the company has injected \$324 million into the Indonesian economy over the life of the mine as follows: \$84 million in salaries for national employees, \$135 million in the purchase of domestically sourced goods and services, \$101 million in government taxes and royalties, and \$4 million on community development projects. Mulyono added that the company has tried particularly hard to steer goods and services contracts to local communities, generating \$5.8 million for them. Finally, Mulyono showed the CDA several of the 14 schools and health clinics PTNNT has built in Sumbawa since commencing operations. He said the company has also built two large dams for irrigation and several smaller ones that have revitalized local agriculture. In addition, Newmont funds an agriculture extension service that helps local villagers take advantage of best practices and reap increased crop yields.

Environment

15. (SBU) One of PTNNT's biggest challenges is the public relations involved with its management of tailings from the mine. The Newmont

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Minahasa pollution trial in North Sulawesi centered on false accusations of pollution from tailings disposal process. Tailings are the finely crushed rocks that remain after copper or gold has been extracted from the ore. They look similar to very fine black sand. Tests show that the tailings are completely inert. In Batu Hijau, PTNNT decided that it was not possible to store the tailings on land due to the island's heavy rainfall, fear of earthquakes, proximity to populated areas, and a scarcity of land. Due to these factors and the mine's proximity to an offshore submarine canyon, the GOI decided that submarine tailings placement offshore was the preferred disposal method.

16. (SBU) PTNNT disposes daily of hundreds of thousands of tons of tailings in a system known as submarine tailings placement. The process involves transporting the tailings through a pipeline extending 2 miles offshore at a depth of more than 300 feet below the ocean surface to the edge of the continental shelf. The inert tailings are deposited into an underwater canyon, where they settle at depths of 9,840 to 13,100 feet below the ocean surface. PTNNT also chose the canyon because there no coral reefs there. With its tailings permit up for renewal in 2005 and in the face of the bad publicity from the Minahasa case, PTNNT's staff held seminars on its tailings disposal for news media, NGOs, local, provincial, and national government officials and neighboring villages and coastal communities. PTNNT also signed an agreement with the Indonesian Fishermen Association on coastal community development programs. Based on their vigorous outreach and education, PTNNT has encountered virtually no public resistance to their operations.

17. (SBU) PTNNT's Environmental Manager Grant Batterham told us that their community outreach on the tailings issue focused intensively on the key differences between PTNNT's copper mining and Minahasa's gold mining operations. Unlike in gold mining, copper mines like Batu Hija do not use cyanide. Batterham said that mercury and arsenic levels offshore in the tailings disposal site are lower than background levels elsewhere in Indonesia. Since 2004, PTNNT has also engaged Australian and Indonesian scientists to conduct water and sediment monitoring studies on its tailings disposal system. He said the company continues regular testing for trace metal and cyanide concentrations in the water and sediment at locations in the vicinity of the mine site. He added that even though mercury and

cyanide are not part of the Batu Hijau metallurgical processes, the firm continues to test those levels as well. He said PTNNT also does extensive sampling of fish from the offshore canyon and other local waters to assure they are healthy.

18. Batterham said that their monitoring study results have consistently showed that the effects of tailings were confined to bottom waters and sediments within the offshore canyon as predicted in the site's environmental management plan. He said also that the study verified that the tailings have no impact on surface waters, the coastal environment, coral reefs or inter-tidal areas.
Hume